Case Note: Metro-Goldwyn-Mayer Studios Inc v Grokster 545 U.S. ___ (2005)

Written by David Ananian-Cooper of Johnson Lawyers

I INTRODUCTION

On 27 June 2005 the Supreme Court of the United States of America in *Metro-Goldwyn-Mayer Studios Inc and Others v Grokster Ltd and Another*, 64 IPR 645 (SCUS, 2005) (‘*Grokster*’) handed down a landmark decision in the music industry's fight against on-line distribution networks for copyrighted works. In their decision, the Supreme Court held that Grokster and StreamCast, companies involved in the development, distribution and promotion of software packages implementing peer-to-peer networking protocols, could, under certain circumstances, be held liable for the use of their software by their users to infringe copyright.

This case note will examine and compare the current status of the law in the US and Australia with respect to secondary infringement of copyright. On the basis of this analysis, the elements of the decision in *Grokster* and the cases leading up to it (‘the *Grokster* litigation’) applicable to Australian copyright law will be identified, and a conclusion will be drawn on this basis on the probable outcome of such a case in Australia. Alternative actions under Australian law such as those available under the Trade Practices Act 1974 (Cth) will not be addressed.

It is submitted that the doctrine of contributory infringement relied on by the Supreme Court in *Grokster* has no equivalent under Australian law. As such, it will be argued that a decision by an Australian court on the same facts would turn on an analysis similar to that undertaken by the ninth-circuit court of appeal in *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd*, 380 F 3d 1154 (9th Cir, 2004) (‘*Grokster I*’) in its application of the US doctrine of vicarious liability for

infringement of copyright.

II Infringement Of Copyright by Authorisation Under The Copyright Act 1968 (Cth)

Under the *Copyright Act 1968* (Cth) ('the Act') a person infringes copyright by doing or authorising the doing of any act comprised in copyright.[1] Under the Act, the making of a copy of a sound recording or of a musical work are acts comprised in copyright.[2] As the parties in *Grokster* did not directly infringe copyright, this case note concerns only the concept of authorisation.

Where there is no explicit authorisation, it must be determined whether the actions of the authoriser nonetheless constitute an implied authorisation. Some considerations relevant to determining this question have been codified in the Act. These considerations are stated as follows:

> (a) the extent (if any) of the person's power to prevent the doing of the act concerned;
> (b) the nature of any relationship existing between the person and the person who did the act concerned;
> (c) whether the person took any reasonable steps to prevent or avoid the doing of the act, including whether the person complied with any relevant industry codes of practice.[3]

As these considerations represent a codification of pre-existing case law,[4] it is appropriate to examine the case law on authorisation both pre and post implementation in order to understand their practical application.

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1 *Copyright Act 1968* (Cth) s 36(1), s 101(1).
2 *Copyright Act 1968* (Cth) s 85(1)(a), s 31(1)(a).
3 *Copyright Act 1968* (Cth) s 36(1A), s 101(1A), amended by *Copyright Amendment (Digital Agenda) Act 2000* (Cth).
4 Revised Explanatory Memorandum, Copyright Amendment (Digital Agenda) Bill 2000 (Cth) 57.

The leading authority on the question of authorisation is the case of *University of New South Wales v Moorhouse and Angus & Robertson (Publishers) Pty Ltd* (1975) 133 CLR 1 (‘*Moorhouse*’). This case concerned the use, and the supervision of the use, of photocopy machines in university libraries.

In *Moorhouse* Gibbs J provided what is considered as the leading statement of the test for authorisation in Australia:[5]

> A person who has under his *control* the means by which an infringement of copyright may be committed – such as a photocopying machine – and who makes it available to other persons, *knowing*, or *having reason to suspect*, that it is likely to be used for the purpose of committing an infringement, and *omitting to take reasonable steps* to limit its use to legitimate purposes would authorize any infringement that resulted from its use.[6]

In deciding the matter at hand, Gibbs J and Jacobs J agreed that, in light of the control of the university over the circumstances of the infringement, the steps taken were insufficient to overcome the inference that there was an invitation to users of the library to make use of the photocopying machines without regard for the rights of the holders of copyright in the relevant material.[7]

CBS Song Ltd and Others v Amstrad Consumer Electronics plc and Another [1988] AC 1013 (‘*CBS*’) concerned the manufacture of twin-deck tape-recorders and considered whether or not a

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[5] Michael Napthali, 'The doctrine of authorisation of copyright infringement in the peer-to-peer age' (2005) 16 AIPJ 5, 16.

[6] *University of New South Wales v Moorhouse and Angus & Robertson (Publishers) Pty Ltd* (1975) 133 CLR 1, 12 (emphasis added).

[7] Napthali, above n 5, 15.

manufacturer could be liable for authorising the infringing uses of their product. The House of Lords distinguished *Moorhouse* on the basis that there was no control over the actions of a customer subsequent to sale and hence there could be no authorisation.[8]

A similar issue was considered in *obiter* by the High Court in *Australian Tape Manufacturers Association Ltd and Others v Commonwealth of Australia* (1993) 176 CLR 480. In the joint judgement, the court explicitly affirmed *CBS* stating that ‘the sale of a blank tape does not constitute an authorisation by the vendor to infringe copyright. That is principally because the vendor has no control over the ultimate use of the blank tape’.[9]

The Federal Court in *Universal Music Australia Pty Ltd v Cooper* [2005] FCA 972 (‘*Cooper*’) considered the question of the liability of the operator of a website which indexed user-submitted links to on-line sound recordings in a publicly accessible database. The court reaffirmed the proposition that ‘the element of control will be necessary to constitute authorisation to infringe copyright’.[10] It was found that Cooper had control over the contents of the index and hence control over the circumstances of infringement.[11] The court then held that in light of both Cooper's unwillingness to leverage that control in response to notice of infringing use and the fact that the site was intentionally designed to facilitate infringement,[12] there was an implied authorisation.[13]

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8 *CBS Song Ltd and Others v Amstrad Consumer Electronics plc and Another* [1988] AC 1013, 1054.
9 *Australian Tape Manufacturers Association Ltd and Others v Commonwealth of Australia* (1991) 176 CLR 480, 497.
10 *Universal Music Australia Pty Ltd v Cooper* [2005] FCA 972 (Unreported, Tamberlin J, 14 July 2005) [80].
11 Ibid [86].
12 Ibid [84].
13 Ibid [87].

In light of the above cases, it would seem that control over the infringing behaviour or the circumstances of infringement, or, in the words of the Act, the 'power to prevent' such an infringement,[14] is an essential prerequisite to the establishment of liability for authorisation of copyright infringement in Australia.

It has, however, been argued that the 'power to prevent' referred to in s101(1A)(a) and s36(1A)(a) of the Act is broader than the concept of control previously developed under the common law involving a wider consideration of the circumstances of the case.[15] However, as seen above in the pre-codification case of *Moorhouse* and later in *Cooper*, the concept of control has been interpreted very broadly by the courts to include indirect control over the circumstances in which infringement occurs. It is submitted that wherever there exists a 'power to prevent' then there is by construction a level of control over the circumstances of the offence. As such, and in light of the broad interpretation of control by the courts, the difference between the legislative and common law formulations is merely semantic and the threshold beyond which there will be held to exist insufficient control is unaffected.[16]

Further, it was suggested by counsel in *Cooper* that the inclusion of the phrase '(if any)' in s101(1A)(a) and s36(1A)(a) of the Act suggests that even where there is no power to prevent infringement, there may still be authorisation at law.[17] The court in *Cooper* spent no time addressing this argument.[18] It is submitted here, however, that the inclusion of the said phrase has exactly the opposite effect to that which was proposed. The use of the said phrase emphasises

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[14] *Copyright Act 1968* (Cth) s 36(1A)(a), s 101(1A)(a).

[15] Sydney Birchall, 'A doctrine under pressure: The need for rationalisation of the doctrine of authorisation of infringement of copyright in Australia' (2004) 15 AIPJ 227, 232.

[16] Ibid.

[17] *Universal Music Australia Pty Ltd v Cooper* [2005] FCA 972 (Unreported, Tamberlin J, 14 July 2005) [83].

[18] Ibid [83].

precisely the fact that a lack of control must be treated as significant. In light of this and the discussion above on the importance of control to the doctrine of authorisation it is submitted that the inclusion of the said phrase serves simply to reinforce the proposition that control is a prerequisite to liability for authorisation of copyright infringement.

In light of previous cases and considerations it is therefore clear that, under Australian law, control is an essential prerequisite to the establishment of liability for authorisation of copyright infringement and that the recent amendments purporting to codify existing common law principles have been effective to that end and do not significantly affect the direction of the development of the law in this area.

III *MGM v GROKSTER* AND THE US DOCTRINES OF CONTRIBUTORY AND VICARIOUS LIABILITY FOR INFRINGEMENT OF COPYRIGHT

Whilst the US Copyright Act does not expressly provide for any form of secondary liability for copyright infringement, the doctrines of contributory and vicarious liability have emerged from US common law to effect secondary liability on individuals other than the primary infringer.[19]

These two doctrines will be examined primarily with regards to their application to the *Grokster* litigation. The US Supreme Court in *Grokster* applied the doctrine of contributory liability overturning the decision in *Grokster I* by the ninth circuit court of appeal.[20] The Supreme Court however declined to comment on the decision of the ninth circuit with regard to the application of the doctrine of vicarious liability.[21]

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19 *Sony Corporation of America v Universal City Studios Inc*, 464 US 417, 434 (1984).
20 *Metro-Goldwyn-Mayer Studios Inc and Others v Grokster Ltd and Another*, 64 IPR 645, 658 (SCUS, 2005).
21 Ibid 652.

A *Contributory infringement*

For a third party to be liable for contributory infringement, US courts traditionally require that the alleged secondary offender have actual or constructive knowledge of the infringement and have materially contributed to it.[22] The US Supreme Court in *Grokster* provides an alternate expression of the foundation for contributory liability: 'one infringes contributorily by intentionally inducing or encouraging direct infringement'.[23]

In *Sony Corporation of America v Universal City Studios Inc*, 464 US 417 (1984) ('*Sony*') the US Supreme Court addressed the question of the contributory liability of a manufacturer or vendor of a product subsequently used for infringing purposes. In light of the US staple article of commerce doctrine,[24] the court found that where there were substantial non-infringing uses for the product in question there was no inducement of infringement and hence no contributory liability.[25] In *Grokster*, the court unanimously qualified that *Sony* only applied in the absence of any credible evidence of intent to induce infringement and where it is sought to impute such an intent based solely on the possible infringing uses of the product.[26]

The court in *Grokster* found that there was ample evidence that both Grokster and StreamCast had promoted their products to the public as Napster[27] replacements.[28] As such they were found to be actively promoting the infringing uses of their product. *Sony* was hence found not to apply and

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22 *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd*, 380 F 3d 1154, 1160 (9th Cir, 2004).
23 *Metro-Goldwyn-Mayer Studios Inc and Others v Grokster Ltd and Another*, 64 IPR 645, 652 (SCUS, 2005).
24 This doctrine comes from US patent law where the sale of an unpatented article which has non-infringing uses will not give rise to contributory liability.
25 *Sony Corporation of America v Universal City Studios Inc*, 464 US 417, 440 (1984).
26 *Metro-Goldwyn-Mayer Studios Inc and Others v Grokster Ltd and Another*, 64 IPR 645, 654 (SCUS, 2005).
27 Napster was an mp3 indexing service, which was shut down as a result of litigation.
28 *Metro-Goldwyn-Mayer Studios Inc and Others v Grokster Ltd and Another*, 64 IPR 645, 656 (SCUS, 2005).

there was found to be an action in contributory liability.[29]

B *Vicarious Liability*

In *Grokster*, the Supreme Court noted that one 'infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it'[30]. However, as noted above, the Supreme Court declined to comment further on this matter as they had already rejected summary judgement on a contributory liability basis.[31] Nonetheless, as will be demonstrated below, the issues associated with vicarious liability would be of considerable interest to an Australian court, are therefore worthy of analysis.

The court in *A & M Records Inc v Napster Inc*, 239 F 3d 1004 (9th Cir, 2000) ('*Napster*') addressed the issue of vicarious liability for the infringing use by users of Napster, a software package which facilitated access to a centralised index of mp3 sound recordings shared by users currently logged on to the system. In that case, the court found that Napster had the right and ability to stop or limit the infringement as it had full control over the central index and hence the circumstances of infringement.[32]

In *Grokster I*, the ninth-circuit court of appeal discussed whether or not software vendors could be vicariously liable for distributing software which had, as its sole purpose, the participation in de-centralised peer-to-peer networks. The court distinguished the case from the decision in *Napster* as, due to the de-centralised nature of the network, it was found that neither Grokster nor

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29 Note the Grokster decision related only to a motion to dismiss and hence no determinative findings were made on the facts.
30 *Metro-Goldwyn-Mayer Studios Inc and Others v Grokster Ltd and Another*, 64 IPR 645, 652 (SCUS, 2005).
31 Ibid.
32 *A & M Records Inc v Napster Inc*, 239 F 3d 1004, 1023 (9th Cir, 2000).

StreamCast was in a position of direct control over the file indexes.[33]

With regard the list of root nodes[34] maintained by Grokster and StreamCast, it was determined in evidence that should this list be removed, or be restricted in some way, there would be little to no effect on the operation of the network or the infringing use by users.[35] Additionally, in the case of StreamCast, the protocol used was licensed from a third party and it was found that the terms the licence restricted control over the contents of the list of root nodes.[36] As such, control over the list was held not to give rise to an ability to stop or limit the infringing use of the software.[37]

It was further established that the lack of a compulsory centralised user registration and login process meant that there was no ability to lock repeat infringers out of the network.[38] Contrary to this finding, it was submitted to the Supreme Court by MGM that both Grokster and StreamCast had such user login and registration systems built into their software that they declined to operate.[39] However, as had been pointed out by the appeal court, such systems are in any case ineffective methods of control due to the ability of users to create fresh anonymous accounts and the inadequacy of Internet address blocking mechanisms.[40]

Finally, with regard the ability of both vendors to include in their software measures to prevent

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33 *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd*, 380 F 3d 1154, 1165 (9th Cir, 2004).
34 The addresses of computers to which the software would automatically connect on initialisation as an entry point into the peer-to-peer network.
35 *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd*, 380 F 3d 1154, 1164-1165 (9th Cir, 2004).
36 Ibid 1165.
37 Ibid.
38 Ibid.
39 Counsel for Motion Picture Studio and Recording Company Petitioners, *Metro-Goldwyn-Mayer Studios Inc v Grokster, Supreme Court of the United States, Brief For Motion Picture Studio and Recording Company Petitioners* (2005) The Electronic Frontier Foundation 62 <http://www.eff.org/IP/P2P/MGM_v_Grokster/04-480_Petitioners_brief.pdf> at 24 August 2005.
40 *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd*, 380 F 3d 1154, 1165 (9th Cir, 2004).

the infringement of works subject to copyright, the court held that 'possibilities for upgrading software located on another person's computer are irrelevant to determining whether vicarious liability exists'.[41] In this the court confirmed the district court's decision which had noted that such possibilities did not amount to an ability to control in any way either the actions of the user or the circumstances of the infringement at the time of the infringement.[42]

Hence, on these facts, it was determined by the courts that Grokster and StreamCast did not have the requisite 'right and ability' to prevent the infringing use of their software by users.

IV A Comparison Of US And Australian Law In Relation To Secondary Infringement Of Copyright

With regard to the US doctrine of vicarious liability, the requirement that there be a right and ability to stop or limit an infringement is essentially identical to the requirement of control and the legislative reference to a 'power to prevent' an infringement under the Australian doctrine of authorisation. As is evident in *Napster*, the concept of control under US law goes beyond that of direct control to include control over the circumstances of infringement and, in that way, likely has similar scope to that under Australian law.

However, the US doctrine of contributory infringement differs significantly from Australian law as is evidenced by the similar facts yet differing judgements in *Cooper* and *Napster*. Both cases related to the establishment of a publically accessible centralised index of songs. In *Napster*, the matter was decided on the sole basis that provision of unrestrained use of the index to the general public constituted a facilitation of, and material contribution to, the infringement. In *Cooper*,

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[41] Ibid.

[42] *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd*, 259 F Supp.2d 1029, 1045 (C.D. Cal., 2003).

however, although the fact that infringement was intentionally facilitated by the design of the site was considered relevant to the finding of implied authorisation, the control which the alleged infringer had over the index was an essential preliminary. Nonetheless, the question still remains as to whether the two doctrines effect the same result.

It is arguable that the doctrines of authorisation and contributory liability are in reality equivalent. Where there is a material contribution, there must necessarily be control over the delivery of that contribution and this may be considered as indirect control over an infringement. Conversely, where there is control over an infringement, and where there is actual or constructive knowledge of its commission, merely refraining from exercising that control to prevent the infringement may be considered a material contribution.

The above proposition is placed in context by the *Grokster* litigation. In *Grokster*, the US Supreme Court held that there had been a material contribution to the infringement for the purposes of the doctrine of contributory infringement. However, in the same matter, the US ninth-circuit court of appeal found that under the doctrine of vicarious liability there was not the requisite right and ability to stop or limit the infringement. Further to this point, the factor considered as constituting a material contribution, namely the promotion of the infringing uses of the software, was entirely distinct from the factors control over which were considered as relevant to the establishment of vicarious liability, namely the ability to control the indexes of files, the registration of users and the list of root nodes. This goes to show that, in the US, factors which may constitute a material contribution go far beyond the factors control over which will constitute control over the commission of an infringement.

V CONCLUSION

It is submitted that should the *Grokster* litigation have occurred under Australian law, the basis for the decision would be manifestly different to that under which it was ultimately decided in the US.

This is because, due to the incompatibility of the approach to the question of secondary liability under Australian law and under the US doctrine of contributory liability, the reasoning for the decision of the US Supreme Court is in the most part inapplicable in the Australian jurisdiction.

On the other hand, the approach taken to the question of vicarious liability by the ninth-circuit court of appeal is more suited to the Australian setting. The same question is asked in both jurisdictions: Whether or not there is a 'right and ability' or 'sufficient control' over the commission of the infringement to give rise respectively to vicarious liability or liability for authorisation of copyright infringement.

In conclusion therefore, and in light of the decision of the US ninth-circuit court of appeal on the question of vicarious liability, it would be reasonable to conclude that should the *Grokster* litigation have occurred in Australia, a court would likely have determined that there was insufficient control over both the commission of the offence and the circumstances under which it was committed to give rise to liability for the authorisation of copyright infringement.